



Government of Nepal
Ministry of Finance

Inland Revenue Department



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Lazimpat, Kathmandu

Ref. No.

Date:

Press Release Regarding the Formal Notification of Amendment in Domestic Tax Legislation Concerning Anti-Treaty Shopping Provision to its Key Treaty Partners

The Government of Nepal, through the designated Competent Authority, Director General of Inland Revenue Department today, has formally notified about the substantive change in its domestic taxation legislation to seven of its Double Taxation Avoidance Agreement (DTAA) partner countries.

This formal communication, issued pursuant to Article 2(4) of the respective DTAA, fulfills the solemn responsibility of apprising partner countries of material changes in their respective taxation statutes. The correspondence informs the treaty partners regarding the enactment of the Income Tax Act, 2002 (ITA 2002), which superseded the previous Income Tax Act, 1974, and introduces new legislative provisions, aiming to combat tax-avoidance through treaty shopping.

The central focus of the notification is the introduction of a material anti-abuse provision, specifically Article 73, Sub-article 5 of the ITA 2002. This domestic legislative provision is designed to safeguard the integrity of DTAA. This anti-treaty shopping rule denies treaty entitlements, such as tax exemptions or reduced tax rates, to the entities where 50% or more of the vested ownership is held by individuals or entities who are not residents of Nepal, or residents of both Nepal and the other contracting state for the purposes of the agreement.

The notification has been formally sent to the Competent Authorities of the seven countries: The Kingdom of Norway, the Kingdom of Thailand, the Democratic Socialist Republic of Sri Lanka, the Republic of Austria, the Islamic Republic of Pakistan, the People's Republic of China and the Republic of Korea with whom Nepal concluded DTAA before the enactment of ITA 2002. This formal notification is thus imperative, as Article 73(5) of the ITA 2002 would otherwise remain inapplicable vis-a-vis Nepal's existing DTAA framework.

The Government of Nepal emphasizes that the policy rationale behind Article 73(5) is to reinforce the primary purpose of the DTAA: to promote legitimate trade and investment between the contracting states. The provision acts as a vital domestic mechanism to prevent the unintended exploitation of treaty benefits and concessions by third-country residents or entities solely seeking tax advantages (commonly referred to as 'treaty shopping').



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"Nepal is firmly committed to maintaining the integrity of its bilateral tax agreements and ensuring that they benefit only Bonafide investors and taxpayers of the respective countries," read the notification letters issued by the Director General and Competent Authority for Nepal. This notification highlights Nepal's dedication to preventing fiscal evasion and upholding a fair, stable, and transparent international tax environment.

The Government of Nepal awaits the acknowledgments of this formal notification from the respective treaty partners and remains open to collaborative engagement for any required clarifications.

November 12, 2025,
Kathmandu

(Bdm Dev Prudel)
Director